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## Preface

The increasing of oil prices and other other commodities, the depreciation of Afghani against USD, and the current bad economic situation in Afghanistan are the issues which forced the lower house of Afghan Parliament to call upon governmental officials to the Parliament.

Since the establishment of National Unity Government, the government is moving towards the wrong direction in economy. The value of Afghani against dollar is decreasing day by day and moreover the investment is also on the decline. In this weekly analysis we would be discussing the depreciation of Afghani and the decreasing of investment in Afghanistan.

In the second of part our analysis, we had analyzed the opium production in Afghanistan and the afghan government's fight against narcotics. In the last week, the Afghan interior ministry has told the reporters that the government had seized more than 100 tons of narcotics in Afghanistan and more than 1870 drug traffickers were arrested in the last eight months.

Recently, United Nation's office for Drugs and crimes has also issued its 2015 survey which interestingly says that this year the opium production and cultivation is decreased in Afghanistan. However, the decrease in cultivation and production was mainly due to 'bad harvest' and with the billions of dollars used against narcotics by international community, still not a great job has been done yet.

In addition, the drug addicted persons are also increasing in Afghanistan day by day despite some governmental health expenditures in this regards. Peoples have been seen on the streets of Kabul where women and children are addicted to drugs in enormous numbers, but the government didn't have done anything yet.

You would read about all these issues in this weekly analysis.

## The Country's Economic Update: Value of Afghani, and Investment



A year has passed from the establishment of the National Unity Government (NUG); however, the country's economic situation is not going towards right direction as the NUG's leaders had promised during the Afghan presidential elections. According to a recent survey by the Asia Foundation, 58% of Afghans think that the country is going on the wrong direction regarding security, corruption, good governance and economy. The top four problems that the Afghan government faces are insecurity, corruption, unemployment and poor economic situation and the most frequently cited local problems are unemployment, illiteracy, poor economic situation and lack of higher education opportunities.<sup>1</sup>

In the economic field, Afghani (Afghan currency) is depreciating against USD day by day and the investment in the country is decreased as compared to the previous years. The question is that Why Afghani depreciates and why investment is decreasing in the country? They are discussed here.

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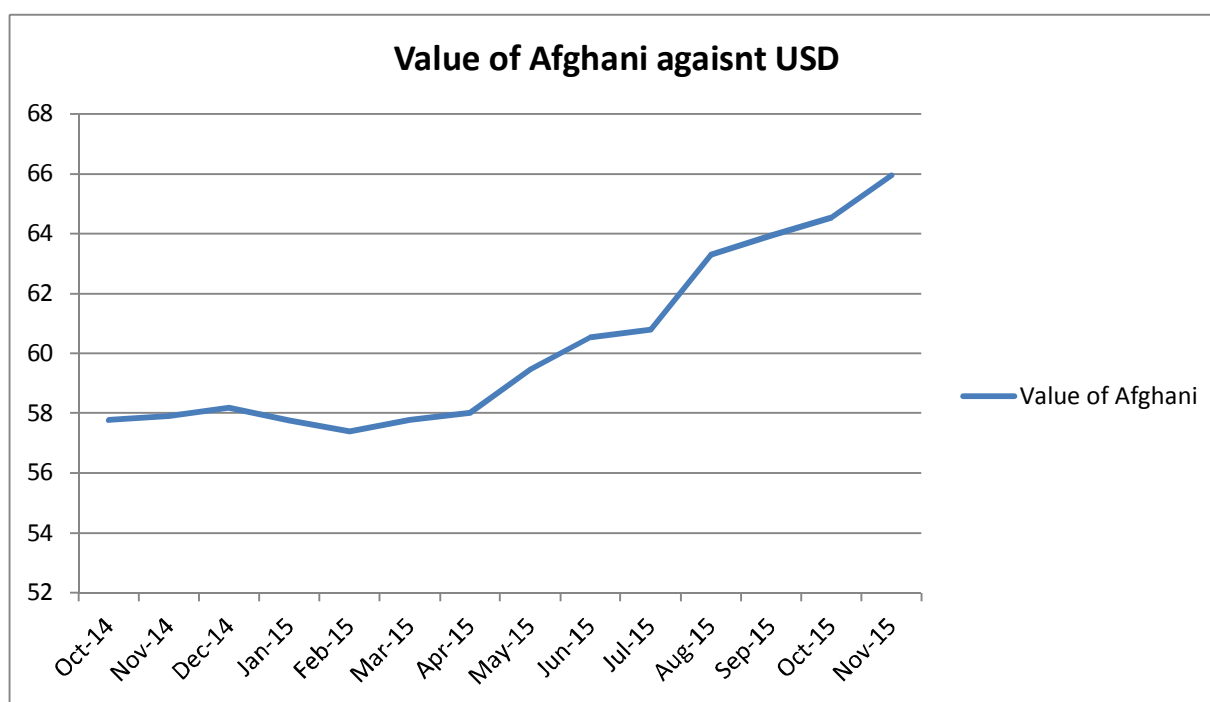
<sup>1</sup> See online: <http://asiafoundation.org/publications/pdf/1558>

### The Value of Afghani in the Last Year

After the first round of presidential runoff elections in April 2014, the monthly average rate of Afghani was 57.22 Afghani against dollar.<sup>2</sup> At the end of the long process of the elections, the monthly average was 57.1 in September; however, after the formation of NUG until the end of 2014, the monthly average value of Afghani against USD was 58.18. The value of Afghani against USD got better in the first two months of 2015 again. The monthly average value of Afghani against USD got better (57.76) and (57.4) in January and February respectively.

After the first two months of 2015, Afghani was depreciated gradually and it is descending now. A USD has valued 67.25 Afghanis in the last week of November. (See, Table A)

**Table A: After the formation of NUG, Value of Afghani against USD (Monthly Average)**



Source: The Central Bank of Afghanistan (<http://dab.gov.af/en/DAB/currency>)'s monthly statistics are the average of all days.

<sup>2</sup> See online: <http://dab.gov.af/en/DAB/currency>

## The Depreciation of Afghani (Currency)

The factors behind depreciation of Afghani are as following:

**First: Increase in the value of USD in the international market:** Deprecation of Afghani against USD is not limited to Afghanistan only, but the value of USD, in the international market, has increased against foreign currencies compared to the last 40 years. If we consider the value of USD against Euro in the last 12 months, the value of USD has increased. For instance, a USD valued 0.81 Euro in December 2014 but, after a year, it values 0.92 Euro in November 2015.<sup>3</sup> Similarly, the value of USD is also increased against other currencies.

**Second: The Poor Economic Situation:** The country's current poor economic situation, where the rate of unemployment has increased compare to the last 14 years, and there is a wide gap between exports and imports (huge trade deficit), investment is decreasing, the security situation is facing challenges and due to the depreciation of Afghani, the demand for other currencies is also on the rise; so these factors has impacts on depreciation of Afghani, also.

**Third: The Artificial Value of Afghani:** The value of Afghani was not high due to economic situation of the country in the past 14 years, but it has an artificial aspect rather. Whenever Afghani was depreciating against USD, the government supplied USD to the market and instead was collecting Afghani. Considering the Demand and Supply principles, the value of Afghani was decreasing as a result of shortage of Afghani and profusion of USD. However, the rate of currencies is based on demand and supply principles; but it is related to the ground of exports and imports rather.

**Fourth: Fleeing of Afghan Youth to Europe:** Since the Afghan youth are started to flee to Europe through illegal ways, so they deal with smugglers on USD, which has increased the demand for USD from one hand and, on the other hand, as a large part of these USD go outside the country, so it causes lack of USD in the country, also. It is why the value of USD against Afghani has increased.

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<sup>3</sup> See online: <http://www.ozforex.com.au/forex-tools/historical-rate-tools/monthly-average-rates>

**Fifth: The Lack of Demand for Afghani in the Market:** At the start, a lot of Afghans were working with foreigners and foreign organizations and so they were receiving salary with USD. They were supplying this USD to the market and were receiving Afghani in exchange. This process which included the demand for Afghani and besides that, the Afghan government was also supplying USD to the market in order to appreciate the Afghani, so this was increasing the demand for Afghani in the market which spontaneously was keeping the value of Afghani high. Now, as a lot of NGOs are closed or their works are shortened, so, the demand for Afghani has decreased in the market, also.

### **The Investment Situation**

Generally, in a backward community, and especially in a post-war-torn country, most of the investment is concentrated on construction works (like building houses, roads, shops and etc.), agriculture, services and industries. Afghanistan was not an exception in this regard, either. In the last 14 years, most of the investment was focused on construction works, services and industries. Investment in the sectors of construction work, services and industries are dependent on security to a larger extent. However when the security is provided well and the predictions for its breach are low; naturally, then, more investment would be done in these fields.

Therefore, the current year's insecurities have negatively impacted the investment in Afghanistan. Afghanistan Investment Support Agency (AISA) believes that investment is decreased by 26% in the first 9 months of 2015 compare to the first 9 months of 2014. Almost \$611 million was invested in Afghanistan in the first 9 months of 2014; however, it decreased to \$448 million in the first 9 months of 2015.

Investment in construction field is decreased to \$83 million in the first 9 months of 2015, in the case, it was \$200 million in 2014, which shows a 58% decline compare to the last year. Moreover, investment in the fields of industry, agriculture and services decreased by 25%, 12% and 9.63% respectively.

## Reasons behind Decline in Investment

The reasons behind decline in investment in the current year are as following:

**First: Insecurity:** Mostly, insecurity is the main reason that prevents foreign big investors to invest in Afghanistan. Moreover, insecurity has prevented domestic investors from doing investment in the country, also, According to the latest report of AISA, investment in the most secure area of Afghanistan (Kabul) is not only decreased but it is increased, also. \$249 million were invested in Kabul in first 9 months of last year; however, this amount increased to \$273 million in first 9 months of 2015.<sup>4</sup>

**Second: Political Instability:** The long process of presidential runoff elections, late formation of the Cabinet and internal disputes of NUG have deeply impacted the rate of investment in the current year.

**Third: Corruption and Bribery:** Corruption and bribery are one of the factors that prevent investment in the country. Now, some rumors are broadcasted on the media that Telecommunication Companies provide armed men with bribes in order to safeguard their buildings.

**Fourth: The Lack of Electricity:** The Lack of electricity is a barrier in the front of industrial activities in the country. For example, almost the entire factories in the Kandahar Industrial Park stopped their activities due to the lack of electricity.<sup>5</sup>

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<sup>4</sup> See online:

[http://www.bbc.com/persian/afghanistan/2015/10/151031\\_k05\\_afghanistan\\_aisa\\_investment\\_decreased](http://www.bbc.com/persian/afghanistan/2015/10/151031_k05_afghanistan_aisa_investment_decreased)

<sup>5</sup> See online: <http://pa.azadiradio.mobi/a/26957266.html>

## Afghanistan and the fight against drugs



The issue of drug is a global challenge and no country in the world is safe from the negative consequences of this ghastly phenomenon. Drug trafficking along the nuclear crisis, population crisis and the environmental crisis is the fourth major global crisis, and according to some statistics, the number of addicts is reached to more than 250 million people around the globe. Since most of the addicts are consisted of young people, which are the active force of the countries, the negative economic impacts of this phenomenon are also disastrous for humanity.

In Afghanistan, however, the exact number of addicted people with this lethal material is yet to be existed, but some statistics show that there are more than one million addicts including women in our country.

Afghanistan is considered as the world's largest producer of drugs and the relationship between Afghanistan and opium date back to centuries; however, in the past three decades, the country has been producing a large proportion of the world's opium.



## Drug Production in Afghanistan (2001-2015)

The expansion of opium cultivation in Afghanistan is linked to multiple factors, but the most important of them are as following:

1. The long-term war and insecurity in the country;
2. The lack of a strong, people-backed central government;
3. The Presence of Drug Mafia consisted of domestic, regional and international mafia;
4. The High Demand for drugs, especially in Western Countries;
5. The Suitable soil and climate for the growth of this plant.

Many people believes that the Afghan government lacks the will and determination to fight drugs, however, the foreign forces needed to play a more important role in this regard, but they have not done it; and questionably, their presence was effective in increase in the growth of opium.

After the arrival of foreign forces in Afghanistan, the growth of drug production was on the rise and made a record of 8200 tons in 2007.

**Table A: The Ascending Growth of Drug Production**

Year	2002	2003	2004	2005	2006	2007	2008	2009
Amount of Opium Produced	2400 Tons	3600 Tons	4200 Tons	4100 Tons	6100 Tons	8200 Tons	7700 Tons	6900 Tons

2010 onwards, the land under poppy cultivation increased, thus the foreign troops intensified strewing the destroying medicament from air. According to the statistics of the Counter-Narcotics Ministry, the opium production fell to 5800 tons in 2011. In 2012, the land under the cultivation of poppy reached to 154000 hectares; however, the opium production, then, fell to 3700 tons due to plant diseases. The decline in production was led to the rise in the price of opium in the world. Farmers to compensate for the decline in the production increased the

land under the cultivation of poppy and, as a result, the opium production rose to 5500 tons in 2013, again.

In 2014, 250 thousand hectares of land went under poppy cultivation, and the cultivation of the plant in some provinces, which were declared free of the poppy cultivation before, resumed; and that caused the growth of the production to reach to 6400 tons.

**Table B: Drug Production from 2011 to 2015**

Year	2011	2012	2013	2014	2015
Amount of Opium Produced	5800 Tons	3700 Tons	5500 Tons	6400 Tons	3300 Tons

However, the statistics published this year (2015) were promising. Despite widespread insecurity, the land under the cultivation dropped by 19 percent and the yield, due to adverse weather conditions and plant diseases, decreased by 48 percent and amounted to 3300 tons; but considering the past experience, it can be predicted that the price of opium will increase in the international market and also, we will continue to see the increase in the production by 2016, then<sup>6</sup>.

### **The Narco-Terrorism**

Some US officials have urged that they should keep their forces in Afghanistan in order to prevent this country from turning into a (Narco-Sate). America and its allies, at the time were rushing to Afghanistan and claimed that “terrorism” and drugs are linked to each other. As “terrorism” is fed by the income derived from drugs in Afghanistan, so, in order to eliminate “terrorism”, the production of drug should be prevented in this country.

The main question is that with the foreign forces coming to Afghanistan for eliminating (Narco-Terrorism), so why they did not succeed in this mission?

<sup>6</sup> See online: [https://www.unodc.org/documents/crop-monitoring/Afghanistan/Afg\\_Executive\\_summary\\_2015\\_final.pdf](https://www.unodc.org/documents/crop-monitoring/Afghanistan/Afg_Executive_summary_2015_final.pdf)

whereas, during the past fourteen years, most of the military activities of these forces were concentrated in the provinces where most of the opium was being produced.

Although, the increase in drug cultivation and trafficking in more than a decade is not confined to a particular factor; but a combination of factors and external and internal contexts are involved in it; however, the most important of them is the lack of serious international and domestic will regarding the honest struggle against drugs. One of its main reasons is the influence, power and role of individuals and elements connected to the gangs of Drug Mafia. Confessions of some of the highest government officials and also revealing reports of a number of independent foreign media provide solid evidences in this regard.

The International Community and the Afghan government have claimed that the increase in drug cultivation and trafficking has direct link with insecurity and war in the country, and based on their statistics, the insecure provinces are involved in drug cultivation and trafficking more than the rest of the provinces. Of course, this problem is effective in expansion and cultivation of drugs, but unfortunately, this claim is used for covering their failures in the process of fight against drugs. For several years after 2002, the areas where poppy was being cultivated had better security situation and the reason behind the rise in the poppy cultivation was that the gangs of drug trafficking and drug Mafia, unlike before 2001, were acting much more organized.<sup>7</sup> Before 2001, however, the scope of the drug trafficking gangs was limited, but, in recent years, these gangs have become connected to the international and regional Mafia networks.

### **Suitable Soil for Cultivation of the Plant of Death**

According to the statistics of the United Nations Office on Drugs and Crime (UNODC), the product of the poppy on one hectare land in Afghanistan is averagely 56kg, while each hectare land in the Golden Triangle that includes Myanmar, Thailand and Laos, in the southeastern Asia, gives 15kg opium.

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<sup>7</sup> See online: [http://dailyafghanistan.com/opinion\\_detail.php?post\\_id=127447](http://dailyafghanistan.com/opinion_detail.php?post_id=127447)

According to the UNODC report, cannabis (hashish or marijuana is derived from its seed) is grown in other countries, also; but in comparison with other countries, it grows very well in Afghanistan. This plant gives 145kg/hectare in Afghanistan, while it gives just 40kg in Morocco. Therefore, Afghanistan is considered as the biggest producer of hashish in the world as well.

On the other hand, the problems that farmers face when they cultivate licit crops like wheat and etc. cause them to start cultivating opium. The high prices of fertilizer, pesticides and etc. make the yield to be not so profitable; in the case, the income of a hectare of opium is several times more than of a hectare of wheat.

### **Income of Drugs in Afghanistan**

According to UNODC, from 2001 to 2010, \$70 billion worth drugs had been produced in Afghanistan, but the question is that how much of this enormous amount obtained by Afghanistan, especially by Afghan peasants?

According to this report of UNODC, only \$2 billion out of the entire \$70 billion went to Afghan farmers' pockets and \$66 billion went to the drug smugglers and Mafia outside Afghanistan. This organization believes that \$200 million of this amount (\$20 million per year) also goes to the armed opposition of the Afghan government.

### **The Struggle against Drugs and Corruption**

According to the special inspector of America (SIGAR), during the past fourteen years, America spent \$7 billion and \$600 million on struggle against narcotics in Afghanistan.<sup>8</sup> If these statistics are accurate, so, it is clearly seen that America spent 3.5 times more than the income of farmers derived from the poppy cultivation and the result is yet to be achieved.

In countries like Afghanistan that are being tipped as "failed states", spending money on struggle against drugs can only help corrupt government officials and

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<sup>8</sup> See online: <https://www.sigar.mil/pdf/Special%20Projects/SIGAR-15-10-SP.pdf>

the farmers would not benefit from it. The US-claimed aid regarding struggle on drugs is still unclear that how this entire amount is spent? But, apparently, the farmers have also didn't take benefited from it.

The role of consumer Western countries regarding reducing the usage of drugs in their own countries can play an important role in reducing demand and as a result decline in production in the producer countries. Struggling only in the producer country cannot have the favorite results; because the decline in production, whatever the reason would be, causes the prices to become increased in the market and it, spontaneously, is an incentive for increase in the production in next year. Therefore, a serious struggle against drug consumption should be started in consumer countries, also.

And finally, the establishment of a competent, responsible and powerful government in Afghanistan can be a solution to this problem. It is possible only in the case if peace is provided. Thereby, decline in drug production, like every other program in Afghanistan, waits for peace and until that moment, Afghanistan would remain at the top of drug-producing countries, then.

The End

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